

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

WISCONSIN ENERGY CORPORATION,)
INTEGRYS ENERGY GROUP, INC.,)
PEOPLES ENERGY, LLC, THE PEOPLES)
GAS LIGHT AND COKE COMPANY,)
NORTH SHORE GAS COMPANY, ATC)
MANAGEMENT INC., and AMERICAN)
TRANSMISSION COMPANY LLC)

)
Application pursuant to Section 7-204 of the)
Public Utilities Act for authority to engage in a)
Reorganization, to enter into agreements with)
affiliated interests pursuant to Section 7-101, and)
for such other approvals as may be required)
under the Public Utilities Act to effectuate the)
Reorganization.)

Docket No. 14-0496

Surrebuttal Testimony of

ALLEN L. LEVERETT

President – Wisconsin Energy Corporation

On Behalf of
Wisconsin Energy Corporation

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

3 **Q. Please state your name and business address.**

4 A. My name is Allen L. Leverett. My business address is Wisconsin Energy Corporation
5 (“Wisconsin Energy”), 231 West Michigan Street, Milwaukee, Wisconsin 53203.

6 **Q. Are you the same Allen L. Leverett who provided direct, rebuttal, supplemental**
7 **rebuttal, and supplemental reply testimony on behalf of Wisconsin Energy in this**
8 **docket?**

9 A. Yes.

10 **B. Purposes of Surrebuttal Testimony**

11 **Q. What are the purposes of your surrebuttal testimony in this proceeding?**

12 A. My surrebuttal testimony responds to the rebuttal testimony of Illinois Commerce
13 Commission (“Commission” or “ICC”) Staff witnesses Dianna Hathorn, Eric
14 Lounsberry and Matthew Smith, Office of the Illinois Attorney General (“Attorney
15 General” or “AG”) witnesses David Efron and Sebastian Coppola, and City of Chicago
16 (“City”) and Citizens Utility Board (“CUB”) (collectively, “City/CUB”) witnesses
17 Christopher Wheat, Karen Weigert, William Cheaks, Jr., and Michael Gorman.

18 **C. Summary of Conclusions**

19 **Q. Please summarize the conclusions of your surrebuttal testimony.**

20 A. In my surrebuttal testimony, I conclude:

21 (1) The proposed Reorganization and the Joint Applicants' plans with respect
22 to the Gas Companies meet the requirements under Section 7-204 of the Act for
23 Commission approval of a reorganization.¹

24 (2) The proposed Reorganization meets the requirements of Section 7-
25 204(b)(1) of the Act because the evidence demonstrates that it will not diminish the Gas
26 Companies' ability to provide adequate, reliable, efficient, safe and least-cost public
27 utility service. The standard suggested by certain witnesses that would require the
28 Commission to find that the proposed Reorganization must improve the Gas Companies'
29 operations before it should be approved by the Commission is inconsistent with the
30 express language of Section 7-204(b)(1). While the Joint Applicants conclude that the
31 proposed Reorganization meets the requirements of Section 7-204(b)(1) based on the
32 evidence to date, the Joint Applicants agree to several of the additional conditions
33 proposed by Staff in an effort to reach agreement with them on this issue. However, the
34 Attorney General and City/CUB witnesses have failed to present any additional evidence
35 or arguments that change the Joint Applicants' positions with respect to their
36 disagreement with the remainder of their proposed conditions.

37 (3) Section 7-204(b)(7) of the Act does not require that the period in which
38 the Gas Companies have committed not to seek a change in base rates be increased from
39 two years to five years as proposed by City/CUB witness Michael Gorman.
40 Mr. Gorman's analysis still fails to account for the impact such a lengthy prohibition on
41 the change of base rates will have on the ability of Peoples Gas to recover AMRP costs
42 through Rider QIP, or adequately address the lack of a Rider QIP for North Shore.

¹ Unless otherwise indicated, capitalized terms in this surrebuttal testimony have the same meaning as in the witness' direct and rebuttal testimony.

43 (6) Because the Supreme Court of Illinois has affirmed Rider VBA, the Joint
44 Applicants no longer need to reserve the right to submit revenue neutral modifications to
45 their rate designs during the pendency of their commitment not to seek an increase in
46 base rates. This should render moot City/CUB witnesses Christopher Wheat's and Karen
47 Weigert's recommendations that the Gas Companies be prohibited from increasing the
48 fixed charge portions of their delivery service rates during the pendency of a rate freeze.

49 (7) While the Joint Applicants will work to develop a new process with
50 standard criteria for the relocation of inside meters, to be submitted to Staff, that will be
51 applied to the relocation of meters as part of the AMRP, the Joint Applicants cannot
52 agree to the part of the condition proposed by Staff witness Matthew Smith that would
53 require Peoples Gas to move all of its non-accessible, non-AMRP inside gas meters to
54 accessible outside locations within ten years after the close of the proposed
55 Reorganization.

56 (8) The Joint Applicants agree to a condition that would require them to work
57 with Staff to develop a Pipeline Safety Management System for the Gas Companies
58 during the two years after the close of the proposed Reorganization.

59 (9) The Joint Applicants cannot agree to the proposed conditions
60 recommended by City/CUB witness Karen Weigert concerning additional funding for
61 energy efficiency programs in addition to what already is required under the Act or other
62 modifications to existing energy efficiency programs offered by the Gas Companies.

63 (10) The Joint Applicants disagree with the conclusions and recommendation
64 of AG witness David Effron concerning costs for the Integrys Customer Experience
65 project, and cannot agree to Mr. Effron's proposed rider condition.

66 **D. Itemized Attachments to Surrebuttal Testimony**

67 **Q. Are you sponsoring any exhibits with your surrebuttal testimony?**

68 A. Yes, I have attached the following exhibit to my testimony:

- 69 • A list of commitments made and conditions agreed to by the Joint Applicants
70 through their surrebuttal testimony, attached as Joint Applicants Exhibit (“Ex.”)
71 15.1.

72 **II. LISTING OF COMMITMENTS AND CONDITIONS**

73 **Q. In her rebuttal testimony, Staff witness Dianna Hathhorn recommended that with**
74 **each remaining filing in this case, the Joint Applicants provide a complete listing to**
75 **date of all commitments and conditions to which they agree, including those**
76 **originally proposed by the Joint Applicants with any changes as appropriate. (ICC**
77 **Staff Ex. 12.0, at 6:133-137) Will the Joint Applicants provide such a list as**
78 **recommended by Ms. Hathhorn?**

79 A. Yes. A complete listing of the commitments made and conditions agreed to by the Joint
80 Applicants through their surrebuttal testimony is attached hereto as Joint Applicants Ex.
81 15.1.

82 **III. THE PROPOSED REORGANIZATION MEETS THE REQUIREMENTS OF**
83 **SECTION 7-204 FOR COMMISSION APPROVAL**

84 **Q. Do the proposed Reorganization and the Joint Applicants’ plans with respect to the**
85 **Gas Companies meet the requirements of Section 7-204 of the Act for Commission**
86 **approval?**

87 A. Yes. While I am not an attorney, based on my understanding of Section 7-204 of the Act,
88 the evidence provided by the Joint Applicants with their Application, in their previous

testimony, and in their surrebuttal testimony establishes a record that supports each of the findings that the Commission is required to make in order to approve the proposed Reorganization. The Joint Applicants have made commitments and presented other evidence to demonstrate that the proposed Reorganization will not adversely affect, diminish, or impair the Gas Companies' service to customers. Moreover, through the creation of a larger, more financially stable utility holding company parent, potential long-term savings, and the sharing of best practices between the Integrys and Wisconsin Energy companies, the proposed Reorganization will result in benefits for the Gas Companies and their customers, putting them in a better position than they would have been if the proposed Reorganization had not occurred. The Commission, therefore, should approve the proposed Reorganization with the conditions as listed in Joint Applicants Ex. 15.1.

IV. SECTION 7-204(b)(1)

Q. What are the requirements of Section 7-204(b)(1) under the Act?

A. Section 7-204(b)(1) of the Act requires that before the Commission can approve a reorganization, it must find that "the proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service."

Q. Has Staff addressed this requirement in rebuttal testimony?

A. Yes. Staff witness Mr. Lounsberry addressed this requirement in his rebuttal testimony (ICC Staff Ex. 9.0).

Q. What was Mr. Lounsberry's position regarding Section 7-204(b)(1)?

111 A. Mr. Lounsberry's position is that if the Joint Applicants agree to all of his proposed
112 conditions, he would no longer dispute their contention that the proposed Reorganization
113 meets the requirement of Section 7-204(b)(1). With respect to the conditions
114 Mr. Lounsberry proposes in his rebuttal testimony – which address commitments to the
115 AMRP and the implementation of Liberty audit recommendations, FTEs, and capital
116 expenditures – he has agreed to adopt several of the modifications that were proposed by
117 the Joint Applicants in their own rebuttal testimony, and has offered other modifications
118 to his conditions in an effort to compromise with the Joint Applicants.

119 **Q. What is your general response to Mr. Lounsberry's rebuttal position on whether the**
120 **Joint Applicants have met the requirements of Section 7-204(b)(1)?**

121 A. The Joint Applicants acknowledge and appreciate Mr. Lounsberry's efforts to consider
122 their positions and offer conditions that seek to reach agreement on issues that he raised
123 in his earlier testimony. As I explain below, the Joint Applicants agree to most of the
124 conditions proposed in Mr. Lounsberry's rebuttal and, where they cannot, offer further
125 explanation of their positions and/or further efforts to reach a compromise on the
126 language of the conditions at issue. However, for the reasons I explained in my rebuttal
127 testimony, I respectfully disagree that the Joint Applicants have not established that the
128 proposed Reorganization meets the requirements of Section 7-204(b)(1). The acquisition
129 of Integrys' stock by Wisconsin Energy to create a larger combined holding company
130 will not diminish Peoples Gas' or North Shore's ability to provide adequate, reliable,
131 efficient, safe and least-cost public utility service absent the additional conditions
132 proposed by Mr. Lounsberry. And, this conclusion is especially true in light of the
133 conditions and commitments to which the Joint Applicants have agreed to date.

134 **Q. Do other parties also address the requirement of Section 7-204(b)(1)?**

135 A. While they do not expressly link their testimony to Section 7-204(b)(1), witnesses for the
136 AG and City/CUB continue to address similar issues in their rebuttal testimony, such as
137 due diligence, the AMRP, and FTE commitments. For purposes of addressing similar
138 issues together, I will discuss my responses to these witnesses' testimony regarding those
139 issues at the same time, as appropriate.

140 **A. Due Diligence**

141 **Q. Both Staff witness Mr. Lounsberry at pages 25-27 of his rebuttal testimony (ICC**
142 **Staff Ex. 9.0) and Attorney General witness Mr. Coppola at pages 16-18 of his**
143 **rebuttal testimony (AG Ex. 4.0) continue to address the level of due diligence**
144 **performed by Wisconsin Energy as to the AMRP prior to entering into the**
145 **agreement to purchase Integrys' outstanding common stock. What is your response**
146 **to this testimony?**

147 A. It is evident that both Messrs. Lounsberry and Coppola have a different view of what type
148 of due diligence should be performed prior to a corporate stock transaction than Joint
149 Applicants witness John Reed and myself. However, to the extent that the Commission
150 believes that Wisconsin Energy needs to have detailed information concerning the state
151 of Peoples Gas' AMRP prior to approving the proposed Reorganization, I agree with
152 Mr. Lounsberry's conclusion that any such concerns have been addressed by Wisconsin
153 Energy's review of the Liberty Interim Report produced by Staff witness Mr. Stoller with
154 his rebuttal testimony. (See ICC Staff Ex. 9.0, at 27:651-662) Wisconsin Energy's
155 review of the Interim Report and position with respect to preliminary recommendation
156 and findings made in the Interim Report with respect to the current state of the AMRP

were discussed in my supplemental rebuttal and reply testimony (Joint Applicants Exs. 12.0 and 14.0, respectively), as well as in the supplemental rebuttal testimony of Joint Applicants witness Andrew Hesselbach (Joint Applicants Ex. 13.0).

B. AMRP

Q. Mr. Lounsberry proposes a minor modification to your proposed revisions of the three conditions he originally proposed on page 4 of his direct testimony concerning the implementation of recommendations from the Liberty audit, cooperating with Staff and the consultants on verification of implementation, and reports on changes to the implementation of the recommendations (ICC Staff Ex. 9.0, at 8-9). Do the Joint Applicants agree to these conditions with this change as set forth in Mr. Lounsberry's rebuttal testimony?

A. Yes.

Q. Mr. Lounsberry continues to propose a condition that the Joint Applicants "reaffirm Peoples Gas' commitment to the Commission in Docket Nos. 09-0166/09-0167 (Consol.) to complete the [AMRP] by the end of 2030" (ICC Staff Ex. 9.0, 15:402-404). Can the Joint Applicants agree to this proposed condition language?

A. No, they cannot. In addition to the information provided in the rebuttal testimony of Joint Applicants witness Mr. James Schott (Joint Applicants Ex. 9.0), Mr. Schott explains in his surrebuttal testimony (Joint Applicants Ex. 18.0) that this condition would not work because there was no commitment made by Peoples Gas in its referenced 2009 rate case to complete the AMRP by 2030. As Mr. Schott explains, the year 2030 was one of three end dates used by Peoples Gas' witness Salvatore Marano in a financial cost-benefit analysis presented in support of a cost recovery mechanism sought in that proceeding.

180 Nevertheless, as I explained in my rebuttal testimony, in addition to the other
181 commitments and conditions agreed to concerning the implementation of the AMRP, the
182 Joint Applicants are committed to having Peoples Gas continue the AMRP with the
183 intention, assuming it receives and continues to receive appropriate cost recovery, to
184 complete the AMRP by 2030.

185 **Q. Both Attorney General witness Mr. Coppola and City/CUB witness William**
186 **Cheaks, Jr. continue to propose the same conditions in their rebuttal testimony that**
187 **they first proposed in their direct testimony regarding performing evaluations of**
188 **AMRP, providing additional AMRP reporting and documentation to the**
189 **Commission and/or the City, plans for the implementation of corrective actions, and**
190 **the development of a performance-based penalty system for certain operational**
191 **metrics. (See AG Ex. 4.0, at 35:676 – 36:699; City/CUB Ex. 7.0, at 2:13-17, 2:21 –**
192 **3:31). Have Messrs. Coppola and Cheaks presented any additional evidence or**
193 **arguments in their rebuttal testimony that has changed the Joint Applicants’**
194 **positions on these proposed conditions?**

195 **A.** No, they have not. For the reasons explained in my rebuttal testimony, as well as the
196 rebuttal and surrebuttal testimony of Joint Applicants’ witnesses Mr. Schott and
197 Mr. Giesler, the additional reporting and documentation that the Attorney General and
198 City/CUB witnesses seek to impose on Peoples Gas are redundant and/or unnecessary.
199 Moreover, such conditions are not necessary to protect Peoples Gas’ customers from any
200 diminishment in the service they receive from Peoples Gas that otherwise would result
201 from the proposed Reorganization. As demonstrated by Messrs. Coppola’s and Cheaks’
202 testimony, as well as the Liberty Interim Report, the concerns these proposed conditions

203 are attempting to address pre-date and are unrelated to the proposed Reorganization.
204 They are operational issues that should be addressed regardless of Peoples Gas'
205 ownership, and thus are not relevant to the question of whether the Commission should
206 approve the proposed Reorganization. Moreover, as addressed in my Supplemental
207 Rebuttal and Supplemental Reply Testimony (Joint Applicants Exs. 12.0 and 14.0,
208 respectively), Liberty's investigation is still ongoing and, as conceded by Messrs.
209 Coppola and Cheaks in their testimony regarding Liberty's Interim Report, that
210 investigation and its recommendations concern and will address the same issues as their
211 proposed conditions. Thus, it is in the context of the process established by the
212 Commission for Liberty's investigation and implementation of its recommendations that
213 these issues should be addressed, not here in a Section 7-204 proceeding while Liberty's
214 investigation remains ongoing. Indeed, because, as Staff witness Mr. Stoller states in his
215 rebuttal testimony, Liberty's interim findings are preliminary and subject to change (*see*
216 ICC Staff Ex. 8.0, at 10:176-180), it may be that the particular conditions proposed by the
217 Attorney General and City/CUB now could conflict and/or interfere with the final
218 recommendations that Liberty will make in its final report.

219 Contrary to the suggestions made in the testimony of Messrs. Coppola and
220 Cheaks, it is not and has never been the position of the Joint Applicants that the
221 implementation and management of the AMRP should proceed "as is" even if approaches
222 currently being used are problematic or could be improved. The Joint Applicants have
223 committed to reviewing and attempting to improve their performance with respect to the
224 AMRP on a continuing basis as work on the project progresses. This is demonstrated by
225 the several initiatives and changes to AMRP that presently are being developed and

implemented by Peoples Gas in collaboration with Liberty, as discussed in the Interim Report, and the Joint Applicants' commitment to continue and support those initiatives and changes after approval of the proposed Reorganization, as discussed in my supplemental rebuttal and supplemental reply testimony. This position is further supported by the Joint Applicants' agreement to conditions concerning the implementation of recommendations Liberty will make in its final report, a process that will begin without delay after that final report is issued. Rather, it has been and remains the position of the Joint Applicants that the present proceeding is neither the time nor place for the AMRP itself to be evaluated or substantive fixes crafted and implemented.

Q. Do you have any additional response to Mr. Coppola's proposed condition that Wisconsin Energy perform a thorough evaluation of the AMRP and "scale" the program to a level of cast-iron/ductile iron replacement and related infrastructure upgrades that is manageable, targets high priority, high risk segments first, is cost-effective, and minimizes the impact on customer rates (AG Ex. 4.0, 35:676-682) and Mr. Cheaks' proposed condition requiring Peoples Gas to improve performance in certain categories with financial penalties for failing to do so (City/CUB 9.0, at 2:21 – 3:30)?

A. Yes. I note that in the Commission's final Order recently issued on January 21, 2015, in the Gas Companies' 2015 test year rate cases, the Commission rejected a proposal made by the Attorney General to impose a system of additional performance-based metrics based on Peoples Gas' trends with respect to reducing corrosion related leaks that would be used as a basis for denying or allowing recovery of expenses for leak reduction efforts. *North Shore Gas Company, et al.*, ICC Docket No. 14-0224/14-0225 (consol.) Order

(Jan. 21, 2015) at 142-145 (the “2014 Rate Cases”). The Attorney General’s proposal was based upon and supported by historical evidence showing Peoples Gas’ performance with respect to corrosion leaks and comparisons to the performance of other Midwestern utilities. *Id.* at 144-145. The Commission ruled that the record did “not support imposing any additional metrics on Peoples Gas’ main replacement program, whether for operational purposes or as conditions of recovery of costs” *Id.* Given that the Commission just rejected similar efforts by an intervenor to have the Commission place a regime of operational metrics with cost-recovery implications over the AMRP based on Peoples Gas’ historical performance trends, the Commission likewise should reject the Attorney General’s and City/CUB’s proposals in this Section 7-204 proceeding. This is especially true, as discussed above, where such metrics might interfere with or be contrary to Liberty’s final recommendations as to how best to improve implementation of the AMRP.

Q. What is the Joint Applicants’ position with respect to Mr. Coppola’s new proposed condition that approval of the proposed Reorganization be conditioned on a requirement that Peoples Gas exclude from rate base any excessive street degradation fees found to be unreasonable and imprudently incurred (AG Ex. 4.0, 36:700-702)?

A. Respectfully, it is the Joint Applicants’ position that this condition is not necessary, as Peoples Gas already bears the burden of showing that the costs it recovers are reasonable and prudently incurred. The reasonableness and prudence of any street degradation fees that Peoples Gas incurs are already subject to examination in any rate case or Rider QIP proceeding in which the recovery of such fees is an issue. Mr. Coppola has not

established any basis or need for a special condition of this nature to be imposed on the proposed Reorganization, which is unrelated to and unlikely to result in any such fees being imposed.

Q. Has the Joint Applicants' position changed with respect to Mr. Cheaks' continued request for a condition requiring the WEC Energy Group to actively participate in CDOT's dotMaps website in order to better collaborate with all occupants of the Public Way (City/CUB Ex. 9.0, 12:231 – 13:247)?

A. No. As discussed in Joint Applicants witness Mr. Giesler's rebuttal testimony, the Gas Companies' IT systems are not compatible with the Google-based dotMaps website, and there are customer privacy and data security concerns that require further discussion between the Joint Applicants and the City with respect the extent of information that would be placed on the website. Mr. Cheaks fails to acknowledge or address these issues in his testimony. Accordingly, at this time, the Joint Applicants can commit only to continue investigating whether and to what extent it is possible for the Gas Companies to participate in the dotMaps website.

C. FTEs

Q. Mr. Lounsberry continues to critique the Joint Applicants' commitment to maintain at least 1,953 FTEs in Illinois for a period of two years after the close of the Transaction on the basis of "the proposed commitment level [being] only for 1,294 FTEs for Peoples Gas and 166 FTEs for North Shore." (See ICC Staff Ex. 9.0, at 17:443-449) What is your response to this testimony?

A. Respectfully, my response is that Mr. Lounsberry's testimony fails to represent correctly what the Joint Applicants have committed to with respect to FTEs. Under the Joint

Applicants' FTE commitment as it currently stands, it is to maintain a *minimum* level of employment *in Illinois* of 1,953 FTEs. This commitment does *not* contain specific commitment levels for the individual utilities or the shared services company in Illinois. Accordingly, contrary to Mr. Lounsberry's statement, there is not a commitment for 1,294 FTEs for Peoples Gas and 166 FTEs for North Shore. (See Joint Applicants Ex. 6.0, at 23:612 – 24:636; Joint Applicants Ex. 6.1) Rather, the commitment is for the WEC Energy Group to maintain a floor level of 1,953 FTEs in Illinois. Based on the information submitted for the 2015 test year in the 2014 Rate Cases, it is the Joint Applicants' intention and expectation that the FTE levels at Peoples Gas and North Shore will be 1,356 and 177.7, respectively. But that is a different issue than what the enforceable commitment as to the minimum level of Illinois state employment will be.

Q. Mr. Lounsberry recommends that the Joint Applicants' FTE commitment be reworded as follows:

Joint Applicants agree to maintain a minimum of 1,356 FTEs for Peoples Gas, 177.7 FTEs for North Shore, and 493 FTEs for Integrys Business Support for two years after the close of the transaction. The Joint Applicants also agree to the extent it [sic] implements any recommendations in the final report on the Peoples Gas' AMRP investigation that require the hiring of additional personnel, those additional personnel shall not count toward the FTE values previously identified and the Joint Applicants shall track them separately.

(ICC Staff Ex. 9.0, at 21:520-527) Do the Joint Applicants agree to this language for their FTE commitment?

A. Again, as I stated in my rebuttal testimony, the Joint Applicants appreciate Mr. Lounsberry's concerns and efforts to compromise, but the Joint Applicants believe that the language proposed above by Mr. Lounsberry changes the nature of their commitment by removing the Illinois component from the FTE commitment and limiting

the flexibility the WEC Energy Group needs to operate its business efficiently. As worded, this commitment would limit the ability of the WEC Energy Group to seek synergy savings and reduce potential duplication in the shared services company. Further, the Joint Applicants respectfully state that implementation of recommendations from the final Liberty investigation report are better left addressed by the already agreed upon conditions concerning their implementation. Moreover, the proposed language presupposes that any Liberty recommendation for the hiring of additional personnel must be in addition to forecasted 2015 test year FTE levels. This language would foreclose the possibility of additional hires being recommended as a replacement for existing personnel with the incorrect or inadequate skillsets. Or, a different recommendation might propose eliminating certain positions to increase efficiency, leading to the recommendations as a whole providing for no net change in employment levels. Thus, rather than adopt additional language that could create a confusing situation with respect to how the merger conditions require implementation of recommendations, the Joint Applicants believe that the general conditions concerning implementation of final Liberty audit recommendations discussed above are best suited for handling all potential recommendations.

Q. What language do the Joint Applicants propose for an FTE commitment based on this analysis?

A. The Joint Applicants believe that the best alternative for an FTE commitment is the one they proposed in their original filing:

The Joint Applicants agree that the WEC Energy Group will maintain a minimum of 1,953 FTEs in the State of Illinois for two years after the Reorganization closes.

Alternatively, however, if the Commission believes that the employment levels at the Gas Companies themselves are more significant than overall employment levels maintained in the State of Illinois, the Joint Applicants are willing to agree to a condition to maintain a minimum level of employment at the Gas Companies based upon the 2015 test year levels for which recovery was approved in their 2014 Rate Cases (1,356 FTEs for Peoples Gas and 177.7 FTEs for North Shore):

[Alternative Condition] The Joint Applicants agree that the Gas Companies will maintain at least 1,534 FTEs for two years after the Reorganization closes.

Q. Does anything presented in AG witness David Effron’s rebuttal testimony (AG Ex. 3.0) change the Joint Applicants’ position with respect to his recommendation that the Commission condition its approval of the proposed Reorganization on the Gas Companies returning to customers, via a rider, the difference between the cost of the level of FTEs approved for the Gas Companies in their pending rate cases and the individual company FTE levels from which the 1,953 FTE commitment was derived?

A. No. Mr. Effron offers no additional evidence in support of his position or argument that I find persuasive. As explained above, the Joint Applicants’ FTE commitment does not contain specific commitment levels for the Gas Companies, and thus Mr. Effron’s recommendation is based on a misrepresentation of the Joint Applicants’ commitment. Moreover, while I am not an attorney, there does not seem to be any legal significance to whether a rider is placed on the Gas Companies as a condition of approving a proposed reorganization without their agreement or “unilaterally imposed” on the Gas Companies in a different proceeding. In either case, it appears that the result would be the

Commission ordering the return of a portion of Commission-authorized rates that had been collected from customers based on a subsequent determination that the rates had been set too high, which I understand is not allowed under Illinois law. I further note that Staff witness Ms. Hathhorn also concludes that this condition recommended by Mr. Effron would be improper. (*See* ICC Staff Ex. 12.0, at 6-7)

Q. Does City/CUB witness Christopher Wheat provide any additional evidence that changes the Joint Applicants' position with respect to his recommendation that the Commission require that the Joint Applicants increase their floor-level FTE commitment to between 2,051 and 2,090 FTEs in Illinois and increase the length of commitment to at least five years after the close of the Transaction (City/CUB Ex. 5.0, at 7)?

A. No, the Joint Applicants respectfully continue to disagree with Mr. Wheat's proposal. Mr. Wheat's argument – that because a commitment to maintain 1,953 FTEs in Illinois is less than the level of FTEs that exist today, it has no value for Illinois – is wrong. This commitment supports the Joint Applicants' statements made in their Application that the proposed Reorganization is not one based on synergies to be created by large reductions in force. This commitment will help ensure that, as represented, the WEC Energy Group is not looking to create synergy savings by drastically reducing Illinois headcount and moving most of its positions out-of-state. Yet, this level will allow WEC Energy Group flexibility to seek synergy savings through voluntary attrition in Illinois as discussed in the Application and my direct testimony, which also will benefit Illinois customers as these savings will be flowed to customers in future rate proceedings. Moreover, a five-year merger condition on employment levels is not a reasonable length of time, and

would unduly restrict the management and operational flexibility in running the Gas Companies based on changing circumstances. For example, it could result in the Gas Companies' customers paying higher rates with no justification other than the existence of the condition.

Q. Does Mr. Wheat provide any additional evidence or argument in his rebuttal testimony in support of his recommendation that the Commission require the level of union employment at Peoples Gas to remain the same as it would have been absent the proposed Reorganization (City/CUB Ex. 5.0, at 7-8) that changes the Joint Applicants' position on this recommendation?

A. No. As I stated in my rebuttal, the Joint Applicants have no intention to reduce the level of union employment at Peoples Gas, and have committed to honoring the Gas Companies' existing union labor agreements. However, this proposed condition is an inappropriate attempt by City/CUB to micromanage Peoples Gas' operations and would remove the flexibility the Joint Applicants need to prudently manage their operations. Further, Mr. Wheat fails to acknowledge the fact that Peoples Gas' Local 18007 union has submitted testimony supporting the Commission's approval of the proposed Reorganization based on the commitments already made by the Joint Applicants. City/CUB fail to establish a basis under Section 7-204 why such a condition would be necessary to protect the interests of Peoples Gas and its customers from any adverse effect the proposed Reorganization is likely to have on their interests.

413 **D. Additional Section 7-204(b)(1) Issues**

414 **Q. What is your response to Mr. Lounsberry's recommendation on pages 21-25 of his**
415 **rebuttal concerning a modification of the Joint Applicants' capital expenditures**
416 **commitment?**

417 A. Joint Applicants witness Scott Lauber (Joint Applicants Ex. 16.0) will address the Joint
418 Applicants' agreement to accept Mr. Lounsberry's proposed modification to their capital
419 expenditure commitment.

420 **Q. Has City/CUB witness Mr. Wheat provided any additional evidence or argument in**
421 **support of his recommendation that the Commission require the WEC Energy**
422 **Group to maintain the same proportion of Illinois members on its board as**
423 **currently exist on Integrys' board for at least five years after the closing of the**
424 **proposed Reorganization (City/CUB Ex. 5.0, at 5-6) that changes the Joint**
425 **Applicants' position on this recommendation?**

426 A. No, the Joint Applicants respectfully continue to disagree with this proposed condition.
427 Nothing presented in Mr. Wheat's testimony establishes that holding company board
428 members need to be residents of Illinois to represent the interests of the Gas Companies'
429 customers adequately, and thus more than one director needs to be from Illinois. Neither
430 Mr. Wheat nor Mr. Cheaks address why a condition similar to the one imposed by the
431 Commission in the AGL-Nicor reorganization in Docket No. 11-0046 requiring that at
432 least one board member be an Illinois resident would not be sufficient in the present case.
433 As I explained in my rebuttal testimony, the fact that a utility's holding company
434 headquarters or board members are located in another state is common, and certainly is
435 not predictive of whether or not the interests of the utility's customers will be protected.

This is especially true here, where the Gas Companies will maintain local headquarters and have local management running the day-to-day operations of the utilities. Here, as in the AGL-Nicor Gas reorganization, the Commission should approve the proposed Reorganization with a commitment by the Joint Applicants to maintain at least one WEC Energy Group board member who is an Illinois resident.

V. SECTION 7-204(b)(7)

Q. What are the requirements of Section 7-204(b)(7) under the Act?

A. Section 7-204(b)(7) of the Act requires that before it can approve a proposed reorganization, the Commission must find that “the proposed reorganization is not likely to result in any adverse rate impacts on retail customers.”

Q. Has Staff addressed this requirement in direct testimony?

A. Yes. Staff witness Michael McNally addresses this requirement in his testimony (Staff Ex. 13.0). The Joint Applicants’ response to Mr. McNally’s testimony on this requirement is provided in the surrebuttal testimony of Joint Applicants witness Scott Lauber (Joint Applicants Ex. 16.0).

Q. Has any other party provided direct testimony related to this requirement?

A. Yes. City/CUB witness Michael Gorman testified that the Joint Applicants’ commitment not to seek a change in the Gas Companies’ base rates that would go into effect any earlier than two years from the close of the Transaction should be extended to five years. Also, City/CUB witnesses Mr. Wheat and Ms. Weigert testified that there should be no increase in the fixed charge portions of the Gas Companies’ delivery services for the length of the period in which a change in rates would not be sought.

458 **Q. Has City/CUB witness Mr. Gorman provided any additional evidence or argument**
459 **in support of his recommendation that the period in which the Joint Applicants**
460 **cannot seek a change in their base rates should be expanded from two years to five**
461 **years (City/CUB Ex. 8.0, at 2-4) that changes the Joint Applicants' position on this**
462 **recommendation?**

463 A. No, the Joint Applicants continue respectfully but strongly to disagree with the
464 recommendations for such a lengthy period to not seek a change in their base rates for the
465 reasons explained in their rebuttal testimony and in the surrebuttal testimony of Joint
466 Applicants witness Mr. Reed (Joint Applicants Ex. 17.0). Furthermore, I note that
467 Mr. Gorman's reliance on his direct testimony that 70% of Peoples Gas' planned
468 expenditures will be covered by Rider QIP does not, in fact, appear to account for the cap
469 in Rider QIP recoveries that can only be reset by the filing of a rate case. Moreover,
470 Mr. Gorman admits that North Shore does not have a Rider QIP, and fails to explain how
471 other "rider mechanisms" available to North Shore would make a five year rate freeze for
472 North Shore "manageable", as they do not provide for the recovery of capital
473 expenditures in between rate cases.

474 **Q. Has anything changed with respect to the Joint Applicants' commitment not to**
475 **request a change in base rates for two years after the close of the Reorganization**
476 **that impacts the recommendations of City/CUB witnesses Mr. Wheat (City/CUB**
477 **Ex. 5.0, at 6) and Ms. Weigert (City/CUB Ex. 6.0 REV., at 7) that the Commission**
478 **order the Gas Companies not to increase the fixed charge portions of their delivery**
479 **service charges for the length of time that the Gas Companies cannot seek a change**
480 **in their base rates?**

481 A. Yes. On January 23, 2015, the Supreme Court of Illinois issued an opinion affirming the
482 Commission's authorization of Rider VBA for the Gas Companies, rejecting claims by
483 the Attorney General and CUB that the rider was illegal. Accordingly, the Joint
484 Applicants no longer need to reserve the right to seek revenue neutral modifications to
485 their rate designs during the pendency of their proposed commitment not to seek an
486 increase in base rates that would become effective earlier than 2 years after the
487 Reorganization closes. This should address the concerns raised by Mr. Wheat and
488 Ms. Weigert, and make their requests moot.

489 **VI. OTHER ISSUES**

490 **A. Staff**

491 **Q. Are there any other issues raised in the rebuttal testimony of Staff that you would**
492 **like to address in your surrebuttal testimony?**

493 A. Yes. I would like to address the two conditions proposed in Staff witness Matthew
494 Smith's testimony.

495 **Q. What is the Joint Applicants' response to Staff witness Mr. Smith's revised**
496 **proposed condition concerning the movement of inside meters (ICC Staff Ex. 10.0,**
497 **at 3-8)?**

498 A. The Joint Applicants greatly appreciate Mr. Smith's willingness to consider and attempt
499 to address the Joint Applicants' concerns expressed in their rebuttal testimony regarding
500 the inability of Peoples Gas to move all of its inside meters to accessible outside locations
501 within ten years after the close of the proposed Reorganization. As discussed in the
502 surrebuttal of Joint Applicants witness Thomas Webb (Joint Applicants Ex. 20.0), within
503 six months after the close of the proposed Reorganization, the Joint Applicants will

develop a new process for Staff review, with standard criteria and approvals, describing when Peoples Gas will allow a meter to stay inside or in a de-centralized location. Peoples Gas will implement the new process and, as part of its discussions with Staff, work on developing and implementing refinements to the process. This will ensure that going forward, as Peoples Gas works to relocate inside meters as part of the AMRP, it is doing so based on a set of criteria agreed to by Staff, so that no meters are left in inaccessible inside locations that should have been relocated. However, for the reasons explained by Mr. Webb, the Joint Applicants cannot agree to the part of Mr. Smith's revised condition that would require all other inside meters that do not meet the criteria for remaining inside to be relocated within ten years after the close of the proposed Reorganization.

Q. What commitment do the Joint Applicants agree to with respect to Mr. Smith's recommendation on pages 15-19 of his direct testimony and page 2 of his rebuttal testimony that the Gas Companies implement a Pipeline Safety Management System ("PSMS"), in accordance with American Petroleum Institute ("API") Recommended Practice ("RP") 1173?

A. As discussed by Joint Applicants witness Mr. Webb in his surrebuttal testimony, the Joint Applicants agree to a condition that the Gas Companies work with Staff over a two-year period, after the close of the proposed Reorganization, to develop a common understanding of the structure and responsibilities of a PSMS, after which time the Gas Companies can work with Staff on its implementation

525 **B. City/CUB**

526 **Q. City/CUB witness Ms. Weigert in her rebuttal testimony (City/CUB Ex. 6.0 REV.)**
527 **continues to recommend that several conditions be imposed in the Commission’s**
528 **approval of the proposed Reorganization based on energy efficiency related issues.**
529 **Has Ms. Weigert provided any additional evidence or arguments that change the**
530 **Joint Applicants’ position with respect to these proposed conditions?**

531 **A.** No, she does not. The Joint Applicants respectfully continue to disagree with her energy
532 efficiency related recommendations. As explained in detail in the surrebuttal testimony
533 of Joint Applicants witness Mr. Schott (Joint Applicants Ex. 18.0), there is no contention
534 that the Gas Companies are not in compliance with the legislatively determined energy
535 efficiency measures required under the Act, and no legal basis for imposing the types of
536 conditions Ms. Wiegert has proposed here. Section 7-204 does not contain any
537 requirements concerning energy efficiency, and does not suggest that the Commission
538 should consider such issues in evaluating a proposed reorganization. Nor has
539 Ms. Weigert established that any of her proposed conditions are needed to protect
540 interests of the Gas Companies or their customers that otherwise would be adversely
541 affected by the proposed Reorganization. Thus, for the reasons explained in my rebuttal
542 testimony, as well as in the rebuttal and surrebuttal testimony of Mr. Schott, the
543 Commission should not adopt Ms. Weigert’s proposed energy efficiency conditions.

544 **C. Attorney General**

545 **Q. Has AG witness Mr. Effron provided any additional evidence or argument in**
546 **support of his proposed condition that would impose a rider that would return to**
547 **customers amounts he believes they will be overcharged in connection to the**

Integrus Customer Experience (“ICE”) project based on the costs of that project recently approved by the Commission in the Gas Companies’ 2014 Rate Cases to be included in their rates (AG Ex. 3.0, at 5-9) that changes the Joint Applicants’ position with respect to this proposal?

A. No. The Joint Applicants respectfully continue to disagree with this recommendation. For the same reasons explained above in connection with Mr. Effron’s proposed condition to impose a rider for differences in the costs for different FTE levels, and in Staff witness Ms. Hathhorn’s rebuttal testimony (ICC Staff Ex. 12.0, at 6-7), the Commission should reject Mr. Effron’s proposed condition concerning the refund of ICE costs collected through rates that have been approved by the Commission.

VII. CONCLUSION

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.